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An investigation into auditors' independence and the provision of non-audit services in Ireland

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Abstract

The issue of auditors providing non-audit services (NAS) is one of the most debated topics within the accounting profession at present. The debate over whether audit firms should supply NAS to their audit clients centres on the proposition that providing such services impairs auditors' independence.

In conducting the study, the researcher used both primary and secondary research. The researcher used a combination of both questionnaires and interviews. Questionnaires were sent out to the top twenty accounting firms and interviews were conducted with the accounting bodies, namely, CPA, ACCA, IIPA, and also with IAASA and the ODCE.

The findings suggest that there is some need for change in the area of auditors' providing NAS. The main findings suggest that more disclosure is required in the annual report and the current rules and regulations are only in part sufficient to prevent the auditor losing independence whilst providing NAS. However, the findings do not seek the need for a ban on auditors providing NAS to their audit clients despite the recent exposure of the so called problem.

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List of Abbreviations

NAS – Non Audit Services

IAASA – Irish Accounting and Auditing Standards Board

CPA – Certified Public Accountants

ACCA – Association of Chartered Certified Accountants

IIPA – Institute of Incorporated Public Accountants

ICA – Institute of Chartered Accountants

FRC – Financial Reporting Council

IASB – International Accounting Standards Board

ODCE – Office of the Director of Corporate Enforcement

UK – United Kingdom

US – United States of America

SOX – Sarbanes Oxley Act

BIG FOUR – Deloitte, Ernst & Young, PriceWaterhouseCooper and KPMG

Table of Contents

Chapter One - Introduction	8
1.1 Introduction	8
1.2 Research Aims and Objectives	9
1.3 Rationale for this study	10
1.4 Limitations of this research	10
1.5 Chapter Outline	11
Chapter Two - Literature Review	12
2.1 Key Definitions	12
2.1.2 Non Audit Services;	12
2.1.3 Auditor Independence;	13
2.1.4 Threats to Independence;	13
2.2 Perceptions in UK Literature	14
2.2.1 Approaches taken on the provision of NAS in the UK	14
2.2.2 High Profile Cases	16
2.2.3 Perceptions in the Literature	17
2.3 Perceptions in US Literature	20
2.3.1 Approaches taken on the provision of NAS in the US	20
2.3.2 High profile cases	20
2.3.3 Perceptions in the Literature	22
2.4 Perceptions in Irish Literature	23
2.4.1 Approaches taken on the provision of NAS in Ireland	23
2.4.2 High profile cases	23
2.4.3 Perceptions in the Literature	24
2.5. Conclusion	25
Chapter Three – Research Methodology	28
3.1 Introduction	28
3.2 Research Philosophy	28
3.2.1 Positivism	28
3.2.2 Interpretivism	29
3.2.3 Research philosophy adopted	29
3.3 Research Approach	30
3.3.2 Research Approach Adopted	30
3.4 Research Focus	31
3.4.1 Exploratory	31
3.4.2 Explanatory	31
3.4.3 Descriptive	31
3.4.4 Research Focus Adopted	32
3.5 Data Collection	32
3.5.1 Questionnaires	32
3.5.2 Interviews	33
3.5.3 Case Studies	34

3.5.4 Focus Groups	34
3.5.5 Observation	35
3.5.3 Data collection method	35
3.6 Secondary Research	37
3.7 Data Analysis	37
3.8 Ethical Considerations	38
3.9 Conclusion	38
<i>Chapter Four - Data Analysis and Findings</i>	39
4.1 Introduction	39
4.2 Analysis of survey results	40
4.2.1 Population Demographics	40
4.2.2 NAS and auditor independence	42
4.2.3 Advantages and Disadvantage of the provision of NAS	44
4.2.4 Problems with the provision of NAS	47
4.2.5 The rules and regulations for the provision of NAS	48
4.3 Analysis of interview results	52
4.3.1 NAS and auditor independence	53
4.3.2 Advantages of providing NAS	53
4.3.3 Problems perceived with providing NAS	54
4.3.4 Rules and Regulations	54
<i>Chapter Five - Conclusions and Recommendations</i>	58
5.1 Introduction	58
5.2 Conclusion One	58
5.2.1 Recommendation	59
5.3 Conclusion Two	59
5.3.1 Recommendation	59
5.4 Conclusion Three	60
5.4.1 Recommendation	60
5.5 Conclusion Four	61
5.5 General Conclusions and recommendations	61
5.6 Further Research	62
<i>References</i>	63
<i>Appendices</i>	71
Appendix I - Questionnaire	71
Appendix II - Interviews	75
Appendix III – Interview Matrix	79
Appendix IV – Ethics Form	80

Chapter One - Introduction

1.1 Introduction

The issue of auditors providing non-audit services (NAS) is one of the most debated topics within the accounting profession at present. The debate over whether audit firms should supply NAS to their audit clients centres on the proposition that providing such services impairs auditors' independence.

The collapse of corporations such as Enron, in the United States of America (US), has sparked the debate over auditor independence and consequently the provision of non-audit services.

In Ireland, there have been many questions asked in relation to auditors' judgements on the truth and fairness of a company's financial statements. Examples of such include Anglo Irish Bank.

The importance of this area can also be seen in the fact that the Auditing Practice Board (APB) is currently reviewing and consulting this area, and have also reviewed this area on numerous occasions.

“The disclosures of non-audit services in financial statements are inconsistent and do not generally provide information of value to investors. More information is needed on how companies purchase non-audit services including the role of the audit committee in the pre-approval of non-audit services”.

(The Financial Reporting Council, 2009)

Regulators in Ireland, the United Kingdom (UK) and the US regard the provision of such services as a threat to independence. The perceived problem with providing NAS is that auditors are seen to have an additional incentive to retain clients and therefore are assumed to be less likely to disagree with the management boards of companies.

The assumed advantage of providing NAS to clients is that it extends auditors' understanding of the business and also improves efficiency by reducing the duplication of effort and so gives the potential to reduce costs for the client.

1.2 Research Aims and Objectives

The main question to be answered in this paper is "How does the provision of NAS affect auditor independence?" The paper aims to address the following research questions and objectives and gather information about them;

1. The impact that the provision of NAS may have on auditor independence.
The aim is to investigate whether or not the provision of NAS affects an auditor's independence.
2. To investigate the arguments for and against the provision of NAS. This is to evaluate the strengths and weaknesses associated with the provision of NAS and to examine the relevant literature to assess the advantages and disadvantages associated with the provision of NAS.
2. To compare the situation in Ireland with that of the US and the UK.
There are significant differences between the rules and regulations in the US, UK and Ireland. The objective in this instance is to look at each and assess their usefulness and impact on the provision of NAS.
3. To investigate whether or not there is a need for change in this area. This is a hugely debated topic and regulators have been seeking change in this area for some time. The aim in this area is to investigate whether or not there is a problem with the provision of NAS.
4. To make recommendations for the future. There have been many recommendations by professionals varying from a complete ban on NAS to a restriction in the provision of NAS. The aim at this juncture is to make recommendations relevant to Ireland.

1.3 Rationale for this study

The topic is of economic importance as there are a huge number of firms and companies going into liquidation/receivership. Some debate has ensued in regard to the impartiality of auditors and to the perceptions that may exist in relation to their judgement. In addition, recent difficulties in Ireland, such as within the banking industry and in FAS, for example, has raised concerns over auditors and their independence.

The provision of management, advisory and other services by auditors to their clients has long been regarded as a threat to auditor independence. Stakeholders and regulators have in many cases expressed great concern in respect of the potential threat of joint provision of audit and NAS to clients given the express issues around perceived auditor independence.

On contrast to this, auditors and their clients argue that the provision of NAS to clients reduce their costs, increase competence and provide more intense competition. It is also argued that they do not necessarily impair auditors' independence, as there are safeguards in place.

This research would be of interest to many stakeholders, such as, investors, customers, suppliers and so on. They need to know whether or not the auditors' of companies are independent and that the provisions of NAS do not affect their opinion on financial statements. By knowing this, they will have more confidence in companies and therefore may be more encouraged to invest their money in them.

1.4 Limitations of this research

This research was limited in regards to time and financial resources. The researcher only had seven months to complete the research and so the primary research in terms of conducting interviews was limited.

Another limitation in the research is that of the busy schedule of interviewees. Due to high workloads and time constraints, some of the interviews were conducted by telephone and others by e-mail. This had the disadvantage to the researcher of not having observed and assessed the body language of the interviewee. It also had the disadvantage of not being able to record all the interviews. The interviews not recorded were typed up immediately after the interview.

Another limitation of the research is that of not being able to interview all the peoples considered. This again was due to the busy schedule of the potential interviewees.

1.5 Chapter Outline

Chapter two – Literature Review - examines the current literature available on the provision of NAS to audit clients. This chapter includes a review on literature in regards to the UK, the US and Ireland.

Chapter Three – Research Methodology - outlines the research methodology adopted. This chapter highlights the main theories in research methodology including the design of the research and the data collection methods adopted.

Chapter Four – Analysis and Findings - outlines the findings and analysis from the primary research.

Chapter Five – Conclusions and Recommendations – This chapter concludes on the primary research and compares the findings with that of the literature presented in chapter two.

Chapter Two - Literature Review

The literature review will begin by looking at key definitions in the area. It will then go on to look at the situation in the UK, the US and Ireland and the perceptions within the literature.

2.1 Key Definitions

2.1.1 Audit:

“An audit is an investigation or a search for evidence to enable an opinion to be formed on the truth and fairness of financial and other information by a person or persons independent of the preparer and persons likely to gain directly from the use of the information, and the issue of a report on that information with the intention of increasing its creditability and therefore its usefulness”

(Gray and Manson, 2003, p.17)

2.1.2 Non Audit Services;

Non-audit services provided by auditors to their clients fall into three categories (ICAEW, 2010):

1. Services required by legislation or contract to be undertaken by the auditors of the business. These include:

- regulatory returns e.g. to the Financial Services Authority
- legal requirements to report on matters such as share issues for non-cash consideration and expenditure for grant application purposes
- contractual requirements, for example to report to lenders or vendors on net assets and covenant requirements

2. Services which prove efficient for auditors to provide because of their existing knowledge of the business, or because the information required is a by-product of the audit process. These include;

- Services such as those listed in category (1) above that the auditors are not required by law to undertake, but where the information largely derives from the audited financial records
- Tax compliance, where much of the information derives from the audited financial records
- ‘Short form’ or other reports in acquisition or reorganization situations where completion is necessary in a very short time

3. Services that could be provided by a number of firms. In this case, the fact that the firm is the auditor is incidental and it would generally only be chosen because, for example, it had won a tender process. Examples of such services include:

- Management consultancy
- Tax advice
- Human resources consultancy

(ICAEW, 2010)

2.1.3 Auditor Independence:

Auditor independence refers to the independence of the auditor from parties that have an interest in the financial statements of an entity. Auditor independence is the foundation of the public’s trust in the accounting profession.

“Auditor independence requires them to be free from situations and relationships which would make it probable that a reasonable and informed third party would conclude that the auditor’s objectivity either is impaired or could be impaired.”

(ICAEW, 2008)

2.1.4 Threats to Independence:

There are very real threats to the independence of auditors, perceived or otherwise, these include;

1. Self interest – such as a financial interest in a client
2. Self review – such as evaluating controls previously recommended to a client
3. Advocacy – where auditors have acted on the clients behalf such as in negotiating a reduction in a tax liability
4. Familiarity or trust – which arises out of a long association with the directors
5. Intimidation – such as by a director

(Cosserrat, 2004)

2.2 Perceptions in UK Literature

2.2.1 Approaches taken on the provision of NAS in the UK

The APB has the responsibility for setting standards on auditing and for overlooking auditor's integrity, objectivity and independence. Following Enron's collapse, there have been many consultations on the joint provision of audit and NAS.

In APB Ethical Standard 5, the relevant paragraphs state:

“8 The audit firm shall establish policies and procedures that require others within the firm, when considering whether to accept a proposed engagement to provide a non-audit service to an audited entity or any of its affiliates, to communicate details of the proposed engagement to the audit engagement partner.”

“11 Before the audit firm accepts a proposed engagement to provide a non-audit service to an audited entity, the audit engagement partner shall:

- (a) Consider whether it is probable that a reasonable and informed third party would regard the objectives of the proposed engagement as being inconsistent with the objectives of the audit of the financial statements; and*
- (b) Identify and assess the significance of any related threats to the auditor's objectivity, including any perceived loss of independence; and*
- (c) Identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to an acceptable level.”*

“13 Where the audit engagement partner considers that it is probable that a reasonable and informed third party would regard the objectives of the proposed non-audit service engagement as being inconsistent with the objectives of the audit of the financial statements, the audit firm shall either:

- (a) Not undertake the non-audit service engagement; or*
- (b) Not accept or withdraw from the audit engagement.”*

“33 Where the audit engagement partner concludes that no appropriate safeguards are available to eliminate or reduce to an acceptable level the threats to the auditor’s objectivity, including any perceived loss of independence, related to a proposed engagement to provide a non-audit service to an audited entity, he or she shall inform the others concerned within the audit firm of that conclusion and the firm shall either:

- (a) Not undertake the non-audit service engagement; or*
- (b) Not accept or withdraw from the audit engagement.*

If the audit engagement partner is in doubt as to the appropriate action to be taken, he or she shall resolve the matter through consultation with the ethics partner.”

“35 The audit engagement partner shall ensure that those charged with governance of the audited entity are appropriately informed on a timely basis of:

- (a) All significant facts and matters that bear upon the auditor’s objectivity and independence, related to the provision of non-audit services, including the safeguards put in place; and*

(b) For listed companies, any inconsistencies between APB Ethical Standards for Auditors and the company’s policy for the supply of non-audit services by the audit firm and any apparent breach of that policy.²

Consultation on audit firms providing non-audit services to listed companies that they audit.”

“37 The audit engagement partner shall ensure that the reasoning for a decision to undertake an engagement to provide non-audit services to an audited entity, and any safeguards adopted, is appropriately documented.”

(FRC, 2009 pp27-28)

2.2.2 High Profile Cases

There have been various high profile cases that have triggered the debate of auditors providing NAS such as Enron in the US and MG Rover in the UK. Following the collapse of car maker MG Rover, a UK government inspector conducted a report on the carmaker. The report concluded that *“Deloitte was the group’s auditor, yet most of its fees, £28.75m, were for non audit work, including advice on the Phoenix director’s schemes to make money for themselves.”*

(The Sunday Times, 2009)

The report did conclude that despite the amount Deloitte received for non-audit work, they did not find any evidence to suggest that the auditor’s independence or objectivity was compromised, however, various people have questioned this view. The results of this have led the APB to evaluate Ethical Standard 5 - Non-Audit Services Provided to Audit Clients.

Another case is that of Rentokil. In this case, their auditor, KPMG, has been hugely criticised for their provision of external and internal audit. They argue against the audit guidelines and claim that what they are doing is acceptable. They claim that they are not acting as management or taking management decisions and therefore they are not breaching any ethical standards. They also argue that due to the provision and extent of NAS, they are providing a better audit and more assurance to their client.

“This work does not replace, conflict with or undermine the independence of the external audit it simply extends our understanding of the business and its controls and hence the breadth and depth of insight we can offer,”

(Accountancy Age, 2009)

2.2.3 Perceptions in the Literature

There are numerous arguments for and against the provision of NAS, all of which have been documented in UK literature.

Firth (2002, p.686) examined associations with audit fees and audit opinions and argues that *“the level of non-audit services is partially a function of company specific events and these events require additional auditing. Once these other events are controlled for, there is little association between audit fees and non-audit service fees.”*

Defond et al. (2002, p.1247) examined whether or not non-audit service fees impair auditor independence from going concern audit opinions and concluded that they found *“no significant association between the two and that this was due to incentives such as loss of reputation and litigation costs, dominating the expected benefits from compromising auditor independence.”*

In contrast to this, Basioudis et al. (2008, p.284), examined audit fees, non-audit fees and going concern reporting issues and argues that *“the magnitude of both audit fees and non-audit fees are significantly associated with the issuance of a going-concern modified audit opinion...overall, evidence supports the contention that high non-audit fees have a detrimental effect on going-concern reporting judgments for financially stressed U.K. companies.”*

Davis et al. (1993, p.135) examined audit effort, audit fees and the provision of non-audit services to audit clients and also concludes that *“knowledge acquired while providing non-audit services may “spill over” to the production of the audit, and thus generate production efficiencies. If audit production efficiencies lead to cost savings that are retained in whole or part by the auditor, the economic rents accrue to the auditor, creating incentives for the auditor to resolve disputes in the client’s favour.”*

The APB undertook research in this area and found some views that investors, regulators and certain other commentators have expressed:

“(a) the nature of some services increases the possibility that the views of the auditor will become aligned with the views of the company's management (e.g. where the auditor has extensively advised on a corporate restructuring or a strategic acquisition);

(b) the greater the volume and financial significance of the non-audit services provided by the auditor, the greater the risk that the auditor will have relationship and economic reasons not to challenge management's views and positions with the requisite degree of energy and scepticism;

(c) prohibitions on auditors providing audit services to their listed clients could enhance the opportunities for mid-sized accountancy firms to provide those services, thereby enhancing their profile and, in turn, leading to greater competition and choice in the accounting services and audit market;

(d) auditors cannot be relied upon to assess objectively whether a particular non-audit service engagement gives rise to threats to auditor independence and objectivity and apply appropriate safeguards.”

(FRC, 2009)

It can be argued that the provision of NAS offers many advantages to both auditors and their clients. As auditors have knowledge of their clients business, they can be seen as those best to provide NAS. The auditor gains experience and fees for providing such services. The company gains external expertise and the auditors have knowledge of the company and so this can result in cost, quality and consistency benefits. It can also be argued that the reputation of auditors is of extreme importance commercially and ethically and so they would not jeopardise this by allowing their independence to be impaired. This argument is also extended to the fact auditors' fees from NAS are required to be published in the accounts. From this, shareholders, investors, creditors and other interested parties can conclude for themselves as to whether or not the auditor is independent, it is these interested parties who have the decision as to who audits the accounts, although management can and usually do influence this decision. Auditors are also required to review their independence on a regular basis. Also, corporate governance

policies aid the provision of NAS without jeopardising auditor independence. The above can reduce the issues that many perceive to be associated with the provision of NAS.

In the UK, various bodies have expressed their opinion on the provision of non-audit services. The Pensions and Investment Research Consultants (PIRC), an advisory body for institutional investors, has urged a ban on non-audit services being provided by auditors to their clients.

“PIRC had urged a ban on the non-audit activity because of fears that it compromises auditors’ independence and discourages them from confronting directors on difficult issues.” (The Sunday Times, 2009)

The treasury committee expressed their views in stating that *“A blanket ban on auditors selling consultancy services to their banking clients”* (The Sunday Times, 2009)

Ian Peters, Chief Executive of the Institute of Internal Auditors, said: *“Internal auditors answer to management and the non-executive directors...external audit reports to shareholders. Merging these two functions has the potential to cause serious conflicts of interest and reduce the effectiveness of internal controls and the management of risk”* (The Sunday Times, 2009)

Richard Fleck, Chairman of APB, said the issue of NAS and auditor independence has been debated since the collapse of Enron in 2002.

“Since then there have been a number of developments including greater involvement by audit committees in overseeing what non-audit services are provided, greater transparency on the fees paid for non-audit services and the issuance by the APB in 2004 of Ethical Standards for Auditors which prohibit a number of non-audit services from being provided in certain circumstances.” (Accountancy Age, 2009)

2.3 Perceptions in US Literature

2.3.1 Approaches taken on the provision of NAS in the US

The collapse of Enron was the biggest factor contributing to the issue in terms of providing NAS within the United States. Its collapse shocked the nation and the reports issued thereafter highlighted numerous problems with their accountants and auditors.

Following this, the Securities and Exchange Commission reviewed the rules on the provision of NAS. Consequently, they introduced the Sarbanes-Oxley Act of 2002. The Act took a very restricted view of NAS and prohibited much of its services including;

- 1) Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- (2) Financial information systems design and implementation;
- (3) Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- (4) Actuarial services;
- (5) Internal audit outsourcing services;
- (6) Management functions or human resources;
- (7) Broker or dealer, investment adviser, or investment banking services;
- (8) Legal services and expert services unrelated to the audit; and
- (9) Any other service that the Board determines, by regulation, is impermissible.

(Sarbanes-Oxley, 2002)

2.3.2 High profile cases

The main case to trigger the questioning of NAS and auditor independence was that of Enron in the US. Enron collapsed in 2001 when there had been a number of financial reporting irregularities in their consolidated accounts over the period 1997 to 2001. Enron used special purpose entities to hide risks associated with specific assets and therefore to hide its debt. The results were that shareholders and employees lost thousands of dollars

in share stocks and pension funds. This caused major concerns for the accounting profession and questions were asked as to why or how Enron's auditors, Arthur Andersen, did not identify the large amount of debt that was hidden in the accounts. Andersen had many questions to answer including why they shredded documents held by them in connection with the company. Andersen was found to be ineffective and it emerged that the auditor had carried out consultancy work for the company and had received substantial fees. In 2000, the audit firm earned \$25 million in audit fees and \$27 million in consulting fees. It was deemed that such fees made the firm apply inconsistent and reckless audit standards as the fee amount created a conflict of interest. As a consequence, Arthur Andersen was sued and barred from auditing in the USA. (Thomas, 2002)

Another case is that of WorldCom. WorldCom was facing severe financial difficulties through the years 1999 to 2002 and so they falsely professed financial growth and profitability to increase the price of its stock. WorldCom inflated their revenues and profits by not applying accounting standards properly and creating fictitious accounts. Its auditor, a member of Arthur Anderson, failed to notice that WorldCom was classifying operating expenses as long-term capital investments. Some have debated on the independence of WorldCom's auditors and also on the company's corporate governance strategies and policies. Questions have been asked as to how the auditors failed to notice the practices WorldCom was engaged in and that \$3.8bn was a significant amount of money to be misrepresented on company accounts.

The case of Disney is yet another example. Disney paid substantial fees for the provision of NAS by PricewaterhouseCoopers (PwC).

"Disney's audit fee for 2001 was a mere €8.7 million compared to the €32 million Disney paid PricewaterhouseCoopers for consulting services." (Tackett et al, 2004)

As notable from the above, the provision of NAS can be a huge fee and therefore the independence of the auditor can be called into question. In the example of Disney above, the auditors' would not have wanted to lose this engagement as they received substantial

fees and these consequently could be perceived as both a conflict of interest and a compromise to independence.

2.3.3 Perceptions in the Literature

Again, there are numerous arguments for the provision of NAS and also against the provision of NAS.

Ashbaugh et al. (2002, p.611) examined whether or not non-audit services compromise auditor independence and found *“no systematic evidence supporting their claim that auditors violate their independence as a result of clients purchasing relatively more non-audit services.”*

Davis et al. (2008, p.32) examined the impact of non-audit service fee levels on investors’ perceptions of auditor independence and found that *“the disclosure of non-audit fees reduces the accuracy of investor perception of auditor independence...even when the auditor is independent in fact; investors perceive that independence is compromised when non-audit fees are disclosed.”*

Robinson (2007, p.33) examined auditor independence and auditor-provided tax service and concluded that there was *“no empirical evidence the auditor independence is compromised by the provision of tax services. Specifically, I find a positive and significant relation between the likelihood of correctly issuing a going-concern opinion in the last audit report prior to the bankruptcy filing and the level of tax services fees.”*

Ferdinand et al. (2005, p.117) examined auditor independence, the joint effects of auditor tenure and non-audit fees and found that *“non audit fees may impair auditor independence when auditor tenure is short and not when audit tenure is long.”*

Callaghan et al. (2006, p.167) conducted research on going-concern audit opinions and the provision of non-audit services; they found *“no significant association between the likelihood of going concern opinions and non-audit fees, fees ratio, audit and total fees.”*

However, contrary to this, Thornton et al. (2003, p.1) examined non-audit services and perceived auditor independence and found that *“major stakeholder groups perceive that non-audit services significantly compromise auditor independence.”* This somewhat agrees with the findings of Davis et al (2008), in respect to investors opinions on the provision of NAS.

In the U.S., the Sarbanes-Oxley Act took a very strict view on the provision of NAS, some agree with this view and others do not. For example, Dan Warmenhoven, Chief executive of Forbes (a leading financial advisory group), has criticized the act by stating *“While the spirit of data-driven regulations like SOX were created with the best of intentions, they have had a tremendously burdensome impact on U.S. enterprises because they have imposed requirements that are complex, costly, confusing and often contradictory.”*

2.4 Perceptions in Irish Literature

2.4.1 Approaches taken on the provision of NAS in Ireland

The stance on auditors providing NAS in Ireland is the same as that of the UK as previously outlined. Auditors in Ireland are to follow Ethical Standard Five on the provision of such services. In addition to the ethical standards, auditors and accountants are required to adhere to the Companies (Auditing and Accounting) Act 2003. This Act outlines various rules and regulations which the auditor has to follow. In Ireland, the Irish Auditing and Accounting Supervisory Board (IAASB) have the role of supervision over accounting bodies and its professions.

2.4.2 High profile cases

In Ireland, various cases have put the provision of NAS in the spotlight. For example, the Anglo Irish Bank and the large amount of corporations going into liquidation have caused concern for auditor independence and the provision of NAS.

In the case of Anglo Irish Bank their auditors have been hugely criticised for their perceived negligence in that they did not identify a material misstatement in their accounts. In Anglo Irish, auditors were paid €1.8m in audit fees, for the joint provision of audit and non audit services. The auditor's independence is now being questioned due to the fact that the transaction repeated itself for eight consecutive years. The question is now looming as to whether the auditors were too dependant on the financial incentives gained from Anglo Irish Bank (The Independent, 2009).

2.4.3 Perceptions in the Literature

In Ireland, there has been very little research to date in regards to the validity or otherwise of NAS however, the provision of NAS is very topical at present.

Canning and Gwilliam, (1999, p.401), investigated non-audit services and auditor independence and found *“that perceptions of auditor independence were significantly diminished when NAS services were provided to clients by personnel involved in the audit rather than by either a separate department within the audit firm or to non-audit clients only”*

The study of Canning and Gwilliam, (1999), shows that shareholders, investors and other interested parties felt a reduction in auditor independence whilst they were providing NAS. However, this view could be questioned. If shareholders were not as confident in the Financial Statements or had reservations of the auditor's independence, they should vote on their removal. It is worth remembering that it is the shareholders of any company that have the final decision in regard to which auditor is appointed.

Canning and Gwilliam, (1999, p.402), also found that *“the scale and extent of the provision of NAS have increased substantially and this has given greater prominence to the associated independence issues”*

In relation to auditor independence, Canning and Gwilliam, (1999, p.401), also found that the *“small size and closeness of the Irish audit market acted to enhance rather than diminish audit independence”*

The current economic climate has made many investors weary of companies and so they are not willing to invest their money as easily as they once did. Coupled with this fact and the various high profile cases with poor economic outcomes which have emerged in recent times, the provision of NAS and auditor independence has become the subject of more rigorous examination.

BDO, managing partner, Peter Carroll has expressed his views and thinks that audit integrity needs rebuilding.

“I strongly believe that we need to rebuild the integrity of the external audit process... in too many corporate failures the perception of the external audit process has been damaged...By having more stringent rules for the provision of non audit services we can begin to demonstrate that the process is robust and a meaningful part of an overall corporate governance structure.”
(The Post, 2010)

In contrast to this, Aidan Lambe, Technical Policy Director with Chartered Accountants Ireland, claims that the regulations are in place but that they need to be enforced.

However, he believes that restricting auditors from providing NAS is not the way forward. *“We’d be concerned if there were restrictions in Britain and Ireland that took us out of line with what’s going on elsewhere, because ultimately it’s a competitive issue. More advisors mean more cost.”*
(The Post, 2010)

2.5. Conclusion

There are many views on the provision of NAS. Many agree with the provision of NAS arguing that they result in the auditor having more knowledge of the clients business and a better understanding of the business. Providing NAS to clients is more cost effective for the client and that the auditor can maintain their independence whilst providing non-audit

services. (Firth 2002, Defond et al. 2002, Ashbaugh et al. Robinson 2007, Callaghan et al. 2006)

In contrast to this, others argue that the provision of NAS impedes auditor independence and so their willingness to disagree with management. Also, some argue that the provision may not necessarily impede their independence but it is perceived to impede it. (Basioudis et al. 2008, Davis et al. 1993, 2008, Ferdinand et al. 2005, Thornton et al 2003, Canning and Gwilliam 1999)

In addition to this, in Ireland particularly, some argue that allowing auditors to provide NAS to their clients means that unfair competition exists and so the “Big Four” (Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers) will always have better opportunities as opposed to other, smaller, practitioners in Ireland.

It is notable from examining the literature in Ireland, the UK and the US, that there are very differing rules and regulations associated with this topic. In Ireland and the UK, rules and regulations are not as stringent as those of the US. There is a ban on the provision of almost all NAS to audit clients in the US. For example, in the case of Rentokil in the UK, the auditors, KPMG, are providing both internal and external audit. If this was a US company, the auditor’s would not be allowed to perform both internal and external audits for the company.

Given the significant differences of opinion on the provision of NAS as well as the clear mistakes made by some Audit Firms, it is clear that more needs to be done to ensure auditor independence. This needs to be done so as the public can have more confidence in the process and that they may see certain benefits in this approach. It could also be argued that there is a need for more rules and regulations due to the fact that businesses are operating in a tough economic climate not least the amount of liquidations, receiverships and closures of businesses. The number of blue chip companies which have suffered significant economic losses have also damaged public confidence. Stakeholders have seen their investments diminish, with huge knock-on effects for the economies of

the US, the UK and Ireland. Many stakeholders would therefore question the validity and independence of the NAS approach.

It is also notable from section 2.4.3, Perceptions in Irish Literature, that there has been very little research to date in the area of NAS and auditor independence in Ireland. It is now proposed to conduct research and so gain the views of Irish Practitioners and Regulators. This will be conducted by sending questionnaires to the top 20 accounting firms in Ireland. Interviews will also be conducted with the accounting bodies and the Irish Auditing and Accounting Standards Board. This research should help to indicate the thinking and the perceptions within Ireland in regard to the provision of NAS and will help identify any need for change and so recommendations for the future.

Chapter Three – Research Methodology

3.1 Introduction

This chapter outlines and justifies the research methodology adopted to achieve the aims and objectives of the study. The criticisms of the research process are also discussed, as well as the strengths and limitations of the data collection process.

There are many differing definitions of research and of research methodology however, Saunders defines research as “*Something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge*” (Saunders et al., 2007).

3.2 Research Philosophy

Research philosophy depends on the way the researcher thinks about development of knowledge and so this then affects the researcher’s approach to the study. Collis and Hussey (2003, p.46) refers to the research paradigm as the general approach to research and defines it as “*the process of scientific practice based on people’s philosophies and assumptions about the world and the nature of knowledge, in this context, about how research should be conducted*”

The two main research paradigms are positivism and interpretivism. They are different, if not mutually exclusive views about the way in which knowledge is developed and judged as being acceptable (Saunders et al., 2007).

3.2.1 Positivism

Positivism is a structured approach to gathering data which is analysed and interpreted in both a factual and statistical manner, facilitating replication whereby repeated examination yields the same outcome. A key distinction of this method is the fact that the researcher is independent of and neither effects or is affected by the subject matter of the research (Remenyi et al., 1998).

Other distinguishing features of the positivist approach are, it is a deductive approach (explained in section 3.3), it seeks to explain relationships between variables, it generally uses quantitative data and it uses controls to test a hypothesis (Gill and Johnson, 1997).

It also uses large samples, the location is artificial, reliability is high, validity is low; and it generalises from one sample to a population (Hussey and Hussey, 1997).

3.2.2 Interpretivism

Those researchers critical of positivist research argue that the rich insights into a complex world are lost if such complexity is reduced entirely to a series of law-like generalisations (Saunders et al., 2007). Hence, interpretivism emerged. Interpretive research seeks to understand the subjective reality of those being studied, making sense of their motives, actions, and intentions in a way that is meaningful to the research participants.

(Saunders et al. 2007; Walliman, 2001)

3.2.3 Research philosophy adopted

The research philosophy adopted is crucial to the research results, and is influenced by the way the researcher thinks about the development of knowledge. The researcher mostly used the interpretivism approach with some aspects of the positivism approach. Semi-structured interviews are interpretive in nature and questionnaires are of a positivistic nature as they can be analysed into percentages.

The study involved five semi-structured interviews with the researcher interpreting the opinions of the interviewees in the analysis and findings, (chapter four).

Interpretivism allows the researcher to recognise the patterns behind the facts, rather than just facts alone. As the aim of this study is to establish whether or not the provision of NAS affects auditor independence, it is the study of more than just facts; it is the finding out of new opinions and insights into the affects of the provision of NAS on auditor independence.

Another reason for the use of the interpretivism approach is that it is flexible which is necessary as interviews can have different responses.

3.3 Research Approach

In order to progress with the research design, the correct research approach had to be adopted. This involved gaining an understanding of the research theory. There are two main approaches to research, namely inductive and deductive research.

The inductive approach involves the collection of data and the examination of that data to develop theories that will subsequently relate to the literature. Research using the inductive approach would be particularly concerned with the context in which events were taking place.

(Saunders et al., 2003)

The deductive approach to research involves the development of a theory that is subject to a rigorous test. It is the dominant research approach in the natural sciences, where *“laws provide the basis of explanation, permit the anticipation of phenomena, predict their occurrence and therefore allow them to be controlled”* (Hussey and Hussey, 1997).

3.3.2 Research Approach Adopted

The deductive approach was adopted for this study as the researcher was attempting to generate new opinions in the area researched. The inductive approach allows for a wider view on the topic and the researcher should then be able to compare and contrast these views. This involved the researcher developing theory from data collected through interviews, which involved the gathering of qualitative data that is subjective.

3.4 Research Focus

Saunders et al., (2007) state that there are three classifications that can be used in the research i.e. exploratory, explanatory and descriptive. The researcher will explain each of these research methods briefly.

3.4.1 Exploratory

Robson (2002), states that exploratory studies are a valuable means of finding out “*what is happening; to seek new insights; to ask questions and to assess phenomena in a new light*”. Through exploration, the researcher develops the concepts more clearly, establish priorities, and improve the final research design (Cooper and Emroy, 1995).

3.4.2 Explanatory

Saunders et al. (2007), state that explanatory studies “*examine casual relationship between variables*”. They further state that the emphasis of explanatory study is on examining a situation or problem in order to explain the relationship between variables.

3.4.3 Descriptive

Robson (2002) acknowledges that the purpose of the descriptive study is to depict an accurate profile of persons, events or situations. He further states that it can be used as an extension or a forerunner to exploratory research. Sekeran (2003) identified the following benefits from conducting descriptive research:

1. Descriptive research assists in decision-making.
2. It provides a basis for further research.
3. It helps develop an understanding of the group.

3.4.4 Research Focus Adopted

The research approach adopted was that of exploratory and descriptive. The research aims to ascertain the views of the top twenty accounting firms, the accounting bodies and of the regulatory authorities on the provision of NAS to audit clients.

The research involves an analysis of the problems and any suggestions for improvements in the area and so this is descriptive in nature. It also involves an analysis of primary research and relevant literature.

3.5 Data Collection

There are many data collection methods available to a researcher. The most common methods of data collection are questionnaires and interviews. Other methods include case studies, focus groups and observations.

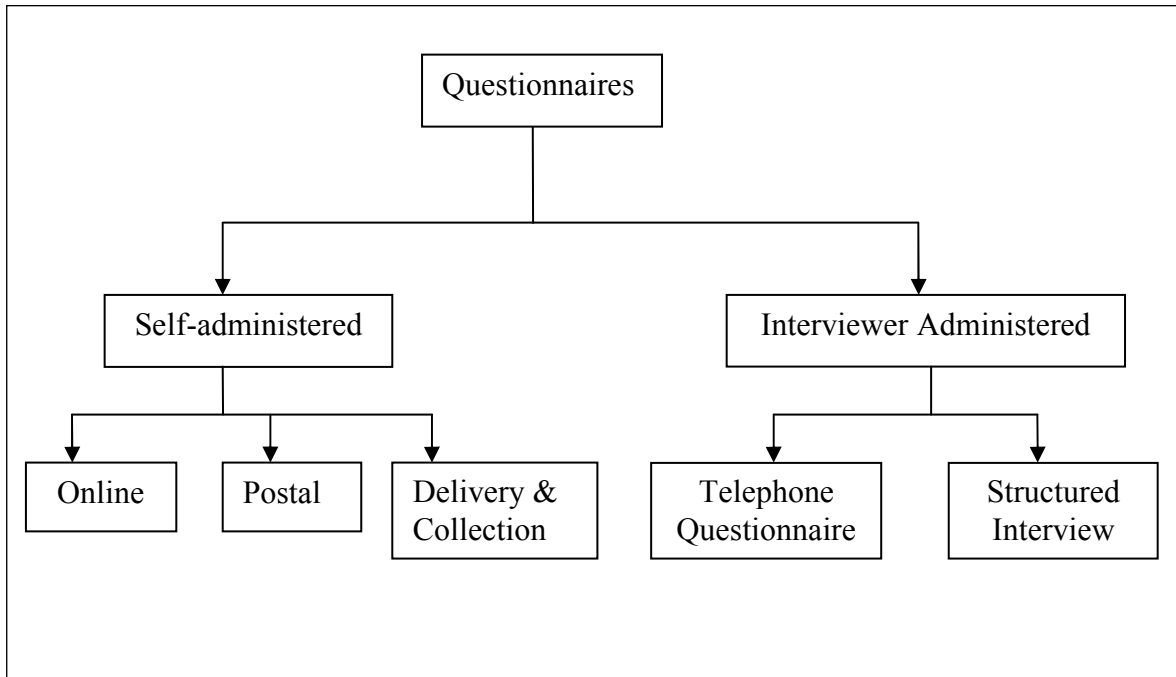
3.5.1 Questionnaires

A questionnaire is a pre-determined set of questions designed to capture data from respondents. There are various types of questionnaires including postal, in person, telephone and online or electronically.

Collis and Hussey (2003) describe a questionnaire as being a list of carefully structured questions with a view to eliciting reliable responses from the chosen sample. Questionnaires are descriptive in nature as they are largely concerned with the what, when, where and how questions (Saunders et al., 2003). Easterby-Smith et al. (2002), state that they may seem simple to use but their design is by no means simple. Collis and Hussey (2003) outline a number of issues to be considered when using questionnaires, these include: sample size, type of questions, wording of questions, cover letter, method of distribution and tests for validity and reliability.

The questionnaires adopted were compiled from reviewing previous literature and identifying gaps in the literature and areas that needed further consideration.

Figure 3.1 Types of questionnaires



(Saunders, *et al.*, 2007, p.357)

3.5.2 Interviews

An interview is a “*purposeful discussion between two or more people*” (Kahn and Cannell, 1957). Interviews are a common research tool for collecting data where selected people are asked questions in order to find out what they do, think or feel about a specific research topic. Interviews are usually divided into three different formats which are structured, unstructured or semi-structured. (Saunders et al, 2003).

3.5.2.1 Structured interviews

Structured interviews are complied with a pre- determined list of questions. This involves very little communication or interaction between the interviewer and the interviewee. The process involves the interviewer asking the questions and the interviewer records the answers on a standardised schedule with pre-coded answers (Hair et al, 2007).

The main advantage to using structured interviews is that each respondent is asked identical questions. However, there is a disadvantage to this approach which is the lack of interaction between the interviewer and the interviewee.

3.5.2.2 Semi-Structured Interviews

Semi-structured interviews are similar to structured interviews in regards of pre-determined questions, however, they allow the interviewer to evolve and adapt the interview as it progresses. This type of interview focuses around both questions and themes. The main advantage of this approach is the flexibility it can pose as certain questions may be omitted from, or new questions added to, the flow of the conversation (Saunders et al., 2007)

3.5.2.3 Unstructured Interviews

Unstructured interviews have no pre-determined set of questions but have a specific aspect that the interviewer wants to explore. The main advantage of this approach is that it allows the interviewer to talk freely and probe further into the topic. However, it does have the disadvantage in that the interviewer and the interviewee can lose thought in the interview and so lose the meaning of the purpose of the research (Saunders et al., 2007).

3.5.3 Case Studies

Case studies are a study of a group of people. The researcher felt that a case study would not provide adequate and accurate information as this research would require a sufficient amount of primary research.

3.5.4 Focus Groups

Focus groups involve a group of people being taken together and asked questions. They are similar to interviews only people are asked the questions at the same time. The researcher felt that focus groups were not appropriate as it would be difficult to get the entire group together at the one time and also due to the fact that it would be more difficult to obtain sensitive information.

3.5.5 Observation

Observation involves the researcher observing a group in their normal working conditions. The researcher considered this type of research inappropriate and therefore did not require this type of research.

3.5.3 Data collection method

The researcher used a mix of methods using both semi-structured interviews and questionnaires so as the aims and objectives of this research could be met.

Semi-structured interviews were chosen as the researcher believes they would allow more flexibility and would allow the researcher to ask or omit questions on the spot depending on the interviewees' responses (Saunders et al., 2003). This format of interview allows questions to be asked in no particular order. Additional questions may also be asked, as the interviewer sees fit, to examine associated issues that arise in the course of the interview (Smith, 2003).

The researcher felt that unstructured interviews were unsuitable as they are time consuming and may also prove difficult in terms of interpretation of findings, as there is no standard on which to base findings.

Structured interviews were also deemed unsuitable as there is no room for flexibility and there is little room for interaction between interviewer and interviewee. Therefore, the researcher felt that semi-structured interviews were the most appropriate format in order to satisfy the objectives of the research.

Interviews were carried out with the accounting bodies (ACCA, CPA, IIPA), IAASA and the ODCE. It was the researcher's intention to carry out interviews with all of the accounting bodies however, this proved unsuccessful due to the busy schedules of some of the potential interviewees. Some of the interviews were carried out over the telephone due to the busy schedules of the interviewees and some were carried out through email. The respondents

emailed the questions back, which were similar to the questionnaires. However, the respondents gave in-depth answers which were useful in terms of informing the researcher's findings. The interviews were of duration of approximately 30 minutes. Each of the interviewees were emailed the interview questions and the research proposal so as they could be prepared in advance.

The questions for the interviews (see Appendix Two) were composed from the literature review in chapter two. The questions used in the interview were pilot-tested by the researcher's colleagues and supervisor. This approach provided an advantage in that it gave feedback from which the researcher could review the questions and amend them as necessary.

As the interviews were conducted over the telephone and through email it was not possible to record such. The advantage of not recording an interview is that it may enable the interviewee to relax and provide responses that are more honest and it allows for the immediate review of hand-written notes. However, not recording the interview also has its disadvantages in that the researcher may have a poor recall of the interview as it depends principally on memory and it does not allow for direct quotes to be used in the findings (Sim and Wright, 2000). To overcome the disadvantages of not recording an interview, the researcher wrote up the interviews immediately after the telephone interview.

Figure 3.3 Advantages and disadvantages of recording an interview

<u>Advantages</u>	<u>Disadvantages</u>
Allows interviewer to concentrate on questioning and listening	May adversely affect the relationship between interviewee and interviewer
Allows questions formulated at an interview to be accurately recorded for use in later interviews where appropriate	May inhibit some interviewee responses and reduce reliability
Can re-listen to the interview	Possibility of a technical problem
Accurate and unbiased record provided	Time required transcribing the auto-tape
Allows direct quotes to be used	
Permanent record for others to use	

(Saunders et al., 2007, pg 334).

3.6 Secondary Research

The researcher examined many sources for secondary research including books, academic journals, articles and any other literature relevant to this study. The researcher also used secondary research to achieve the aims of a number of the objectives, which was to access the current situation in Ireland, the UK and the US.

3.7 Data Analysis

The researcher received a total of seven completed questionnaires out of a possible twenty questionnaires. This is a response rate of 35% of completed questionnaires. The researcher considered this an appropriate amount of representatives.

The researcher intended to interview a total of six interviewees. This however was not possible and so the researcher interviewed a total of five interviewees and again this was considered representative.

The data was analysed through Microsoft Excel and the package that hosts online questionnaires. The interviewees were also analysed by constructing a matrix (See Appendix Three).

3.8 Ethical Considerations

Ethical considerations must be taken into consideration in any research undertaken by a researcher. In conducting the study, the interviewees were informed that any information collected would be stored, analysed and presented within strictly confidential boundaries. In addition, permission was sought in regards to the interviews for the recording of them, before there commencement.

The researcher also submitted an ethics form to the representative body in Letterkenny Institute of Technology in which the research was considered ethically sound (See Appendix Four).

3.9 Conclusion

The research was undertaken to investigate the independence of auditors whilst providing NAS to their clients. The researcher adopted a combination of both philosophies. The approach used involved both descriptive and exploratory forms of research. Questionnaires were distributed to the top twenty accounting firms and interviews were held with the Accounting Bodies, IAASA and the ODCE, the results of which are outlined in chapter four.

Chapter Four - Data Analysis and Findings

4.1 Introduction

This chapter presents the findings and analysis of the primary research gathered through questionnaires and interviews. The population consisted of accounting firms in Ireland. The questionnaire was sent to the top twenty accounting firms, as this was seen to represent a significant population. The following is a summary of the results of the questionnaires:

Table I Summary of questionnaire responses

Details	Number
Total Population	20
Responses	9
Non – responses	11
Partial Responses	2
Total completed responses	7
Response Rate	35%

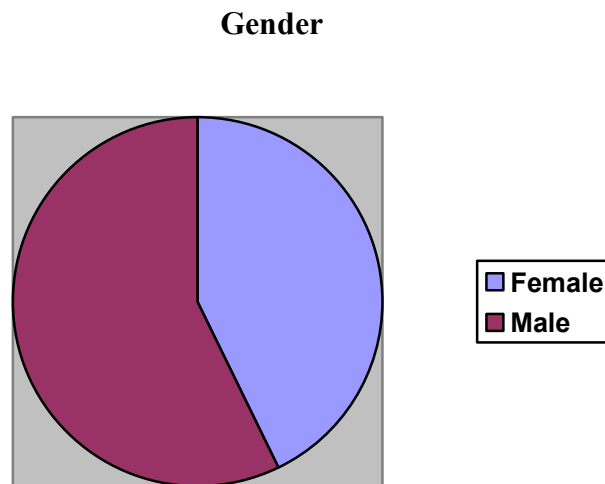
Of the 20 accounting firms contacted, nine replied while four stated that they had not got the time to complete the questionnaire as it was their busiest time of year. This reduced the population to 16 and so the response rate was 35% of the total, 43% of completed questionnaires and 56% if partially completed questionnaires are considered. It is recognised that the analysis would reflect better if only completed questionnaires informed the study.

4.2 Analysis of survey results

4.2.1 Population Demographics

The first three questions were in relation to the characteristics of the respondents. The respondents were asked their gender, how many years of experience they had in accounting and auditing and also what percentage of their work involved accounting, auditing, taxation and consulting. These questions were asked so that the researcher could gather the respondents' backgrounds and therefore their acquired knowledge in the area of auditing and NAS.

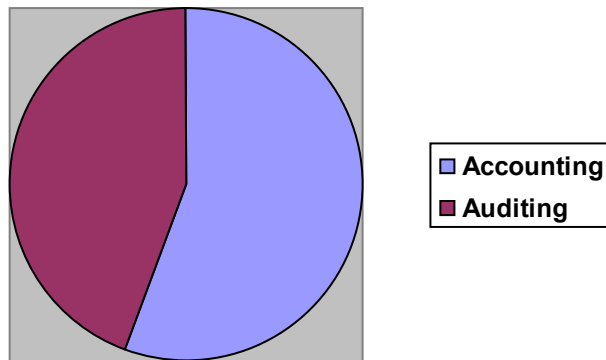
Figure 1 – Question 1: What was the gender of the group studied?



42.9% of the respondents were female and 57.1% were male.

Figure 2 – Question 2: How many years of experience do you have in accounting and auditing?

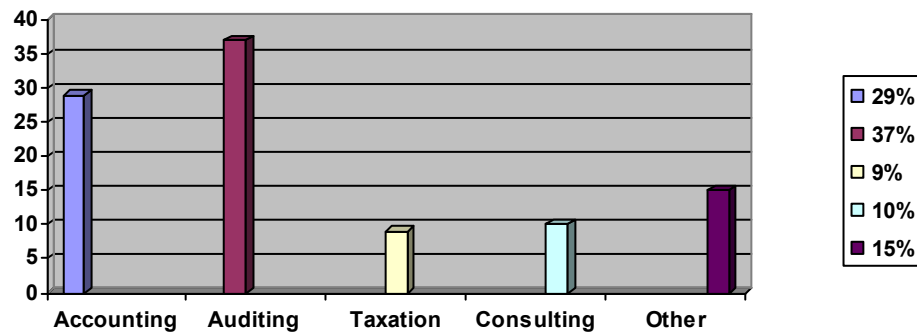
Experience



On average, the respondents had 15 years of experience in accounting and 12 years of experience in auditing. (This was determined by adding the total years experience and divided by the number of respondents.)

Figure 3 – Question 3: What percentage of your professional work involves accounting, auditing, taxation and consulting?

Professional Work



Of the respondents, their professional work involved 29% accounting, 37% auditing, 9% taxation and 10% consulting. The questionnaires would suggest that the professionals were engaged in other duties for 15% of their time.

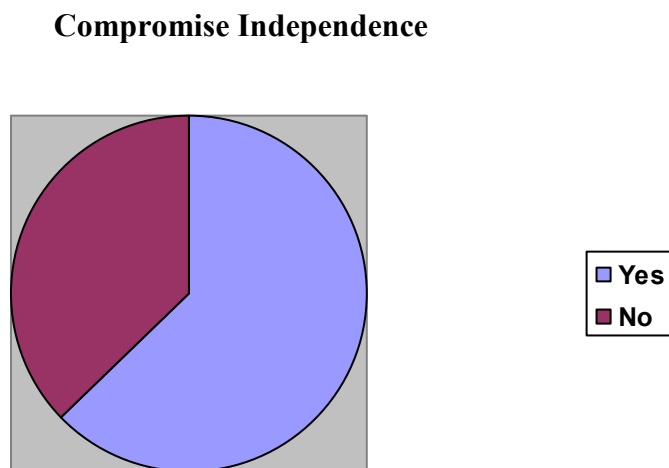
4.2.1.1 Summary of demographics

The gender of the respondents was almost split equally; there was a fair gender balance among the respondents. The respondents all had a number of years experience in both accounting and auditing and they had all worked in the relevant areas – accounting auditing, taxation and consulting. This provided an insight and understanding of the extent of the respondents work in NAS. They all had provided some level of consulting or taxation, both of which are NAS provided to audit clients.

4.2.2 NAS and auditor independence

The next two questions were asked to gain the respondents views on whether or not they thought that NAS provided to audit clients affects the auditors independence or otherwise.

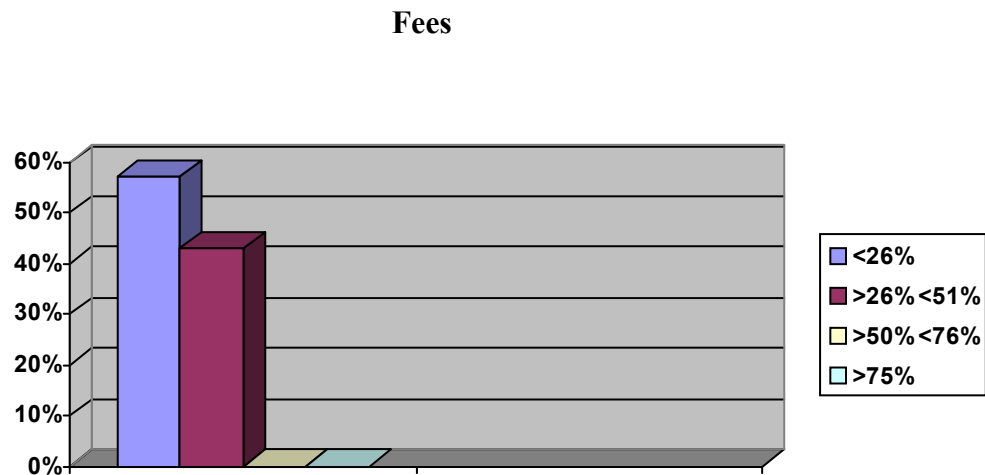
Figure 4 – Question 4: Do you think when auditors accept non-audit fees that it is likely to compromise their independence?



Of the respondents, 62.5% answered that they thought the provision of NAS affected the auditors' independence and 37.5% answered that the provision of NAS did not affect the auditors' independence.

This is a very significant finding as the professionals themselves are of the opinion that their independence in conducting audit is in fact compromised. Just over one-third felt that they had the necessary stance to conduct an independent audit.

Figure 5 – Question 5: What percentage of non-audit fees to total audit firm fees do you think would be likely to compromise the auditors' independence?



57% of respondents thought that 1-25% of total fees income relating to NAS were seen to compromise the auditors' independence and 43% said that anything above 25% affected auditors' independence. This would concur with the previously asked question and opinion as the proportion of fees should clearly be in the range of <25% of total income.

4.2.2.1 Summary on auditor independence

The above two questions were asked in order to find out the impact that NAS may or may not have on auditor independence. Of the respondents, 62.5% thought that the provision of NAS did affect auditor independence which is over half of the respondents and 37.5% thought that the provision of NAS did not affect auditor independence. One respondent

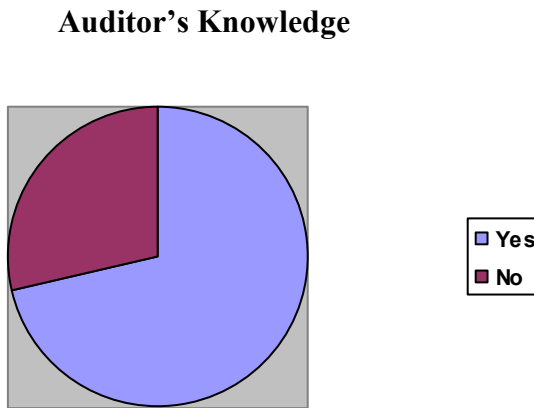
thought that the provision of NAS affected auditor independence as the income from NAS was larger than income from the audit. One respondent stated that the auditing standards sufficiently covered the issue of NAS and auditor independence. Another respondent stated that the provision of NAS had a major impact on the quality of the audit conducted whilst providing NAS.

It could be concluded that many of the professionals responding to the questionnaire are uneasy about the fee structure in relation to fees gathered for NAS. This is reflected in both their subjective opinion associated with general effect on an auditor's independence and latterly in relation to the proportion of NAS to total fees. However, it is also recognised that some of the professionals felt that the accounting standards provided sufficient governance and support to offset the compromise that could present as a result of disproportionate NAS fees to total fees.

4.2.3 Advantages and Disadvantage of the provision of NAS

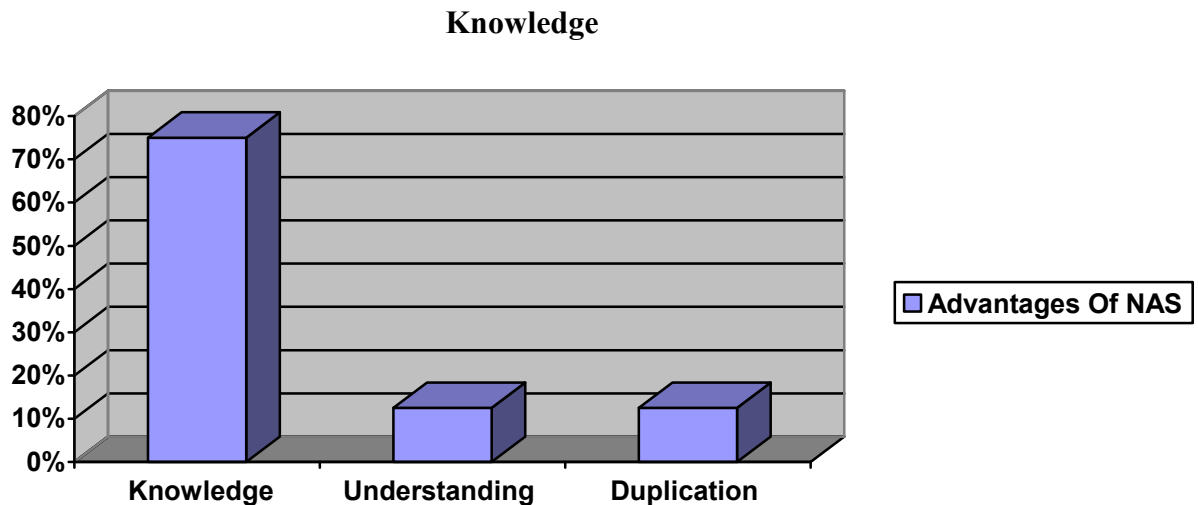
The next set of questions were asked to gain a view on what respondents thought were the advantages with the provision of NAS and if they perceived any problems with this provision.

Figure 6 – Question 6: In your opinion, do you think that NAS provided to audit clients increases the auditors' knowledge of a client and therefore allows the auditor to provide a better audit?



The majority of respondents, 71.4%, answered that the provision of NAS does increase an auditor's knowledge of a client and so the auditor can provide a more informed audit. 28.6% percent disagreed with this and claimed that the provision of NAS does not increase the auditors' knowledge. This response is quite different than might be expected given the previous responses. It could be argued that in a general context there may be currency in ascertaining background information about an organisation and perhaps their history and performance, however the main difficulty appears to be when the fees for NAS becomes disproportionately larger than those for other aspects of accounting practice.

Figure 7 – Question 7: What added knowledge and/or advantages does the provision of NAS give to audit clients, in your opinion.

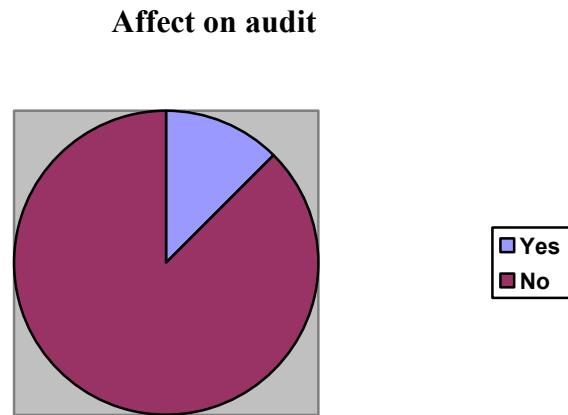


75% of respondents indicated that the advantage of the provision of NAS was that it gives the auditor a wider knowledge of accounting figures, taxation, and a fuller knowledge of the business in general and of the client. 12.5% of respondents replied saying they thought it avoids duplication of work. 12.5% of respondents said that the provision of NAS increases the auditors' understanding of the business.

From the clients' perspective, it is generally accepted that they will always want and need a well informed firm of professional accountants and auditors who will provide a maximum range of services. It may be considered advantageous if the client builds up a relationship with one or a small number of professionals across a range of functions provided to their company or organisation. It could be argued that if the one firm of accountants provide a full range of services then the professional(s) in that firm get to know the wider context of the company or organisation and may in turn provide a more responsive and flexible service for their client.

4.2.4 Problems with the provision of NAS

Figure 8 – Question 8: Are you aware of any instances where the provision of NAS had potential to affect audit quality and therefore the NAS could not be completed



87.5% of respondents said they never experienced any problems with the provision of NAS and that it never affected their audit to the extent that NAS could not be completed. 12.5% of respondents said that they had experienced this problem and so NAS could not be completed for their audit client. It could be asserted that this question may relate to a previous question associated with the proportionality or otherwise of NAS to total fees. If a firm of accountants/auditors create an imbalance in terms of consultancy fees to independent audit fees, it can become more difficult to establish an impartial approach. It is often stated that consultancy firms employed to evaluate a firm or organisation find it difficult to be critical when in fact the same firm or organisation is for that part their paymaster.

4.2.4.1 Summary of advantages and disadvantages

In general, the respondents thought there were some advantages with the provision of NAS to audit clients. For the most part the respondents thought that the main advantage was that of a wider and more comprehensive knowledge of the client and its business. Some thought that the provision of NAS allows the auditor to provide a better audit to their clients.

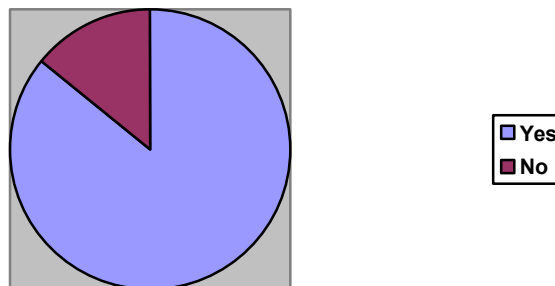
A minority of respondents, 12.5%, experienced problems with the provision of NAS and so they could not provide such services to their audit clients.

4.2.5 The rules and regulations for the provision of NAS

These questions were asked to identify if there is a need for change in this area and whether or not the respondents thought that more needs to be done in relation to auditors protecting their independence.

Figure 9 – Question 9: Do you think audit committees should approve all NAS to be provided by the auditor before the services are provided?

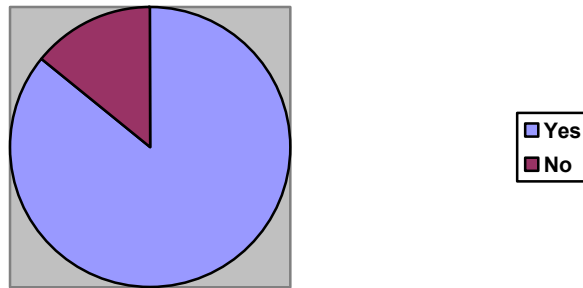
Audit committee approval



87.5% of respondents thought that the audit committee should approve all NAS to be provided by the auditor whereas 12.5% thought that this was not a necessary requirement. It is clear from the majority of respondents that the governance afforded through a committee structure is to be welcomed. There is some protection for the individual that they are not exposed insofar as they would not be considered to have the autonomy to undertake an assignment with a potential conflict of interest for them either personally or professionally.

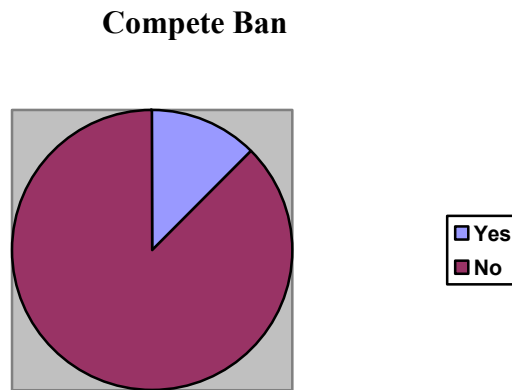
Figure 10 – Question 10: Do you agree with the disclosure requirements of non-audit fees in the annual report?

Disclosure Requirements



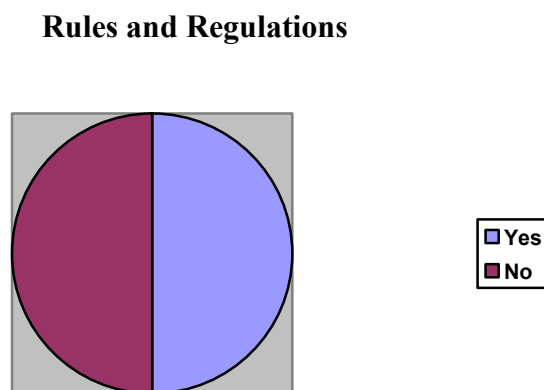
85.7% of respondents thought that the disclosure requirements in relation to audit fees were appropriate in the annual report and that this was necessary. 14.3% thought that this was not a necessary requirement and did not agree with it. This conclusion in common with the previous question is related to governance, openness and transparency. It affords the individuals working within accountancy firms and the firm itself a level of protection professionally. It would also categorically demonstrate that the firm abided by the 15% standard laid down.

Figure 11 – Question 11: Do you think there should be a complete ban on the provision of NAS to audit clients.



87.5% of respondents said that there should not be a ban on the provision of NAS to audit clients and 12.5% said there should be a ban. The majority of respondents thought that a complete ban was not an option. This outcome is not unexpected given that fact that the ethical standards committees have given serious consideration to the proportionality associated with a limit on NAS fees.

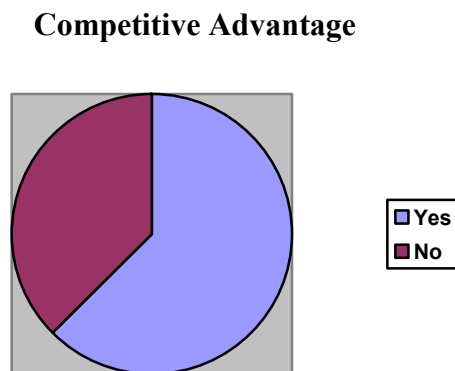
Figure 12 – Question 12: Do you think there needs to be more rules and regulations in the area of NAS?



Half of the respondents thought there needed to be more rules and regulation and half thought that there did not. It is evident that there is some divergence of opinion between professionals working in this sector. However, given the size of this study it could be

argued that the group is not sufficiently large to gain a majority opinion. Much of the outcome could be as much to do with individual preference in regard to regulation per se than any considered objection to how the regulatory aspects are governed.

Figure 13 – Question 13: Do you think that the provision of NAS to audit clients leads to an unfair competitive advantage for the Big 4 considering the small Market in Ireland



From reviewing previous literature in Ireland on the provision of NAS, there was a consistently muted question as to whether or not the provision of NAS gives the big four an advantage over smaller Irish firms. The associated question area was asked in order to gain the perspectives of the respondents on the issue. Over half of the respondents, 62.5% thought that the Big 4 had a competitive advantage over smaller firms, it was therefore thought if there was a ban on the provision of NAS to audit clients, this unfair competitive advantage could be seen to be removed. 37.7% of the respondents thought that it did not give the Big 4 a competitive advantage over smaller firms in Ireland. Because of the anonymous nature of this questionnaire the researcher is unaware of the identity of the respondents, it could reasonably be assumed that the latter not agreeing with any change could be in fact employed by one of the Big 4 since questionnaires were sent to all of the aforementioned firms.

4.2.5.1 Summary on Rules and Regulations

Respondents were of a mixed opinion in relation to more rules and regulations being introduced. The majority thought that Audit Committees should approve all NAS to be provided and that added disclosure in relation to the provision of NAS is paramount in the annual report. Mostly respondents did not agree to a complete ban on the provision of NAS. There is some divergence of opinion as to whether more rules and regulations should be introduced however, audit committee approval and added disclosure is welcomed.

Question 14: Are there any other comments you would like to contribute to this study.

This question was asked so that respondents could put across any other view points they had on the topic and any other ideas on the area.

Three respondents had something to contribute to the study. One respondent thought that the provision of NAS became highlighted for ‘Machiavellian’ reasons insofar as media and some of the general public were concerned. Since auditors/accountants carry indemnity insurance there was a view that some compensation could be gained for perceived poor advice on areas such as investment. This view was compounded by the current economic crisis. One respondent thought that there needs to be a balance between ensuring auditor independence and forcing multiple service providers onto clients. The other respondent thought that the independence issue had different connotations depending on the client and the nature of the non-audit services provided to that client. They considered factors such as whether it is a private or public client, the size of the client’s business or organisation and who is relying on the audit report. This respondent considered such factors to be far more important than that of the level of fees.

4.3 Analysis of interview results

The following section deals with the analysis and findings of interviewees carried out. This section is sub-divided into further sections as follows:

4.3.1 NAS and auditor independence

The aim of the first question was to investigate the impact that the provision of NAS may or may not have on auditor independence. The question asked was to find out if the interviewees thought that the provision of NAS compromised an auditor's independence. Mostly interviewees thought that NAS did not compromise auditor independence. The reasoning behind this was they thought that there were sufficient safeguards, appropriate limits, important controls and adequate disclosure in place to protect the auditors' independence whilst providing NAS to audit clients. This result is very differing from that of the questionnaire in which most respondents thought that the provision of NAS did affect auditor independence.

The aim of the second question was to gather research to ascertain what the interviewees' thought about the level of fees obtained from the provision of NAS and what they thought would compromise an auditor's independence. Mostly the interviewees thought that anything over 10% of total audit fees for NAS was seen to compromise independence. A minority thought that this 10% threshold should be reduced and some also thought that this 10% should be reduced to 0%. This result is quite similar to that of the questionnaire results where most respondents thought auditors' should not have anything above 25% of their income coming from NAS.

4.3.2 Advantages of providing NAS

The objective in the third and fourth question was to find out if the interviewees thought that the provision of NAS added to the knowledge of the auditor and if there were any advantages with the provision of NAS. Mostly the interviewees thought that the provision of NAS did not accumulate any added knowledge for the auditor and that the auditor should have accumulated such knowledge without the need to provide NAS. A minority of interviewees thought that the provision of NAS meant that the auditor could get to know the managers and directors of a company or organisation better and therefore they could provide a better audit.

4.3.3 Problems perceived with providing NAS

The next three questions were asked in order to determine whether the interviewees thought that the assumed problems with the provision of NAS were and if they were merely a perception issue among the general public. Mostly the interviewees said that this was not the case and that the majority of people commenting on the area were ill-informed on the topic. One interviewee commented *“In newspaper articles they complain about NAS fees however, journalists do not read the full annual report. They assume that high fees mean that auditors were paid to keep them sweet and keep them quiet”* For the most part interviewees commented that they had never experienced problems where services could not be completed due to issues such as losing independence and objectivity. A minority of interviewees commented that they had experienced problems with such.

4.3.4 Rules and Regulations

The next few questions were asked in relation to what interviewees thought about the rules and regulations in place to protect auditors' independence and if they thought these rules and regulations need to be changed.

Question eight was asked to seek interviewees' views on whether or not they thought the audit committees in companies and organisations should approve all services before they commence and whether they thought the audit committee should play a more significant role in the conduct of the audit. All interviewees agree that audit committees should approve all services provided and should play a more significant role in the conduct of the audit. This positive response leads the researcher to conclude that this should become a necessary requirement within the auditing process and it is a recommendation for the future.

Questions nine and ten were asked in relation to the disclosure of NAS fees and the notes in the financial statements. All interviewee's agreed that disclosure of fees relating to NAS was paramount in the annual report of companies and organisations. Interviewees

commented that this was adding to the disclosure issue and that disclosure is a key issue at present. They commented that more disclosure would educate people as to the services provided and the extent to which the auditor does their work. One interviewee commented *“There should be sufficient detail to identify what precise type of work has been carried out, as well as any material details of any contract, e.g., duration.”*

Question eleven was in relation to the setting of standards by the APB and if they thought there needs to be change in this area. The interviewees were of a mixed opinion on this question. The most part thought that there did not need to be more rules and regulations in this area stating *“The APB set standards for auditors to follow, the stock exchange has regulations to follow, and there is the combined code to follow not forgetting company law. This is more than enough bodies setting standards and they were not sure who is at fault for the current paradigm on the provision of NAS. More rules and regulations is not the answer, more disclosure is likely the answer.”*

Another interviewee was of the opposite opinion stating *“I would like to see a more strict code of standards that would only allow exceptional circumstances to prevail when non audit services by auditors is permitted.”*

Questions twelve and thirteen were in relation to whether or not the interviewees thought that it would be useful to introduce stringent rules and regulations such as those introduced in the US, and whether they thought there should be a complete ban on the provision of NAS. Most of the interviewees thought that the same rules and regulations as those introduced in the US would be welcomed and would reduce the risk of auditors' losing their independence. In regards to a ban on NAS, most interviewees thought this was not an option. One interviewee stated *“A ban on NAS would mean that for larger companies, they would have no choice of auditors due to the lack of sufficient firms. Therefore some level of provision of NAS needs to be provided for, unless or until more larger firms are created.”* On the contrary, another interviewee stated *“If there was a ban on the provision of NAS to audit clients, smaller firms could merge together to provide*

such services to audit clients and simultaneously this would have a positive effect on the fear of the big four becoming the big three”

Question fourteen was asked in order to gather insight as to what the professionals thought in relation to the awareness of the rules and regulations already in place. There was a varied response in relation to this question. Some interviewees thought that people did not know the current rules and regulations in place and were not aware “things” such as the auditors’ ethics code or their need to protect their reputation. One interviewee said *“accountants are not aware of the above never mind stakeholders and that they only challenge such if failure occurs. When everything is going good for a company or organisation there is no questions asked of the auditors, the fees charged or the differing tasks they may be involved in i.e., NAS”*

Other interviewees commented that this was not necessarily the case stating that *“People are aware of the rules and regulations in place however it does not go far enough to promoting impartiality”*

Question fifteen was in relation to whether interviewees had an opinion on the small market that exists in Ireland at present. Again, the interviewees had mixed responses on the topic. Most of the interviewees thought that the big four did not have a competitive advantage and one stated *“The scale of very large companies would mean that the provision of NAS is only possible in many instances by big four firms. Non-big four firms should be encouraged to tender for such work, but they may lack the mean to carry it out.”*

Other interviewees thought that the big four had a competitive advantage and that the market could be increased to the smaller or mid-tier firms if NAS were banned from firms also conducting the audit.

Question sixteen was a general question asked to gather any other thoughts or recommendations in regards to the provision of NAS. The interviewees were again of mixed opinions. One interviewee commented that *“I believe both should be separate functions; there should be more standard setting and corporate governance for firms.*

There should also be committees which are independent in the accountancy profession to monitor monopoly situations and to create more environments.”

Another commented “many of these issues are caused by the lack of sufficient numbers of large firms. One possible solution to this would be to seek the reversal of the larger mergers of the last 20 years that created the big four. E&Y, D&T, KPMG and PWC were for the most part created by mergers, and if they were made to split, on whole service lines rather than spinning off certain elements such as consulting, this would simultaneously increase competition and reduce their size so as to allow non big four firms a chance to compete.”

Chapter Five - Conclusions and Recommendations

5.1 Introduction

This chapter concludes the main findings and outcomes of this study in relation to the stated aims and objectives in chapter 1. The researcher will also outline recommendations from the study, as well as suggesting further areas of research, concerning this study.

5.2 Conclusion One

One of the key aims and objectives of the study was to examine the impact that the provision of NAS may have on auditor independence and to investigate whether or not the provision of NAS affects an auditor's independence. The questionnaires for the most part reveal that professionals themselves feel that an auditors' independence is compromised.

Analysis indicated that many of the professionals themselves are uneasy about the fee structure in relation to the proportion of fees gathered for NAS. This is reflected in both their subjective opinion associated with general effect on an auditor's independence and also in respect of the proportion of NAS to total fees. It is also fair to say that some of the professionals felt that the accounting standards provided sufficient governance and support to offset the compromise that could present as a result of disproportionate NAS fees to total fees.

In relation to the interviews, undertaking with respect to this aim, it was fairly evenly split between those who felt there was a compromise to independence and those that did not. It is recognised that the sample of interviews was small (5) and therefore this could be a limitation to analysis. A further aspect was in relation to opinion around the percentage of NAS to total fees and resoundingly the opinion was for less than 10% proportionality, in two interviews, the value was nil.

5.2.1 Recommendation

Professionals should be given the opportunity to express opinion in regard to the impartiality of work assignments undertaken and should from a professional and ethical perspective be given the chance to influence the work they do. In regard to accounting standards there should be continuous validation of work practices by the Accounting Bodies. There should also be a review of proportionality of NAS to total fees.

5.3 Conclusion Two

A further aim of this study was to investigate the arguments for and against the provision of NAS. This was to evaluate the strengths and weaknesses associated with the provision of NAS and to examine the relevant literature to assess the advantages and disadvantages associated with the provision of NAS. In a general context, it was stated in the questionnaires and in one interview that there may be currency in ascertaining background information about an organisation which in turn may inform the professional of the organisations' performance. This however was offset to a great extent by the fact that professionals were uncomfortable with the fee structure, the main difficulty appears to be when the fees for NAS becomes disproportionately larger than those for other aspects of accounting practice. From the clients' perspective, it was fairly well accepted that they will always want and need a well informed firm of professional accountants and auditors who will provide a maximum range of services. The study revealed that there is some advantage if the client builds up a relationship with one or a small number of professionals across a range of functions provided to their company or organisation. Some of the analysis showed that if the one firm of accountants provide a full range of services then the professional(s) in that firm get to know the wider context of the company or organisation and may in turn provide a more responsive and flexible service for their client.

5.3.1 Recommendation

There should be more avenues made available to professionals when undertaking an audit such as detail around organisational reports, structures and other documentation. A

reliance on NAS information gathering is not consistent and it leads to unfair competition particularly in relation to the Big 4. The standards must create a base for a more fair competition for business by minimising the extent to which any one firm can engage in NAS.

The needs and aspirations of the client group must also need to be given consideration and although they can never be allowed to dictate professional standards, nonetheless it is recommended through the study that a 'User' of the services should be given the opportunity to have advocacy on the standards committees of the accounting bodies.

5.4 Conclusion Three

A further aim and objective of the study was to compare the situation in Ireland with that of the US and the UK. The literature review undertaken revealed that there are significant differences between the rules and regulations in the US, UK and Ireland. The objective was this to look at each and assess their usefulness and impact on the provision of NAS. The situation is very similar in the UK and Ireland however, the US differs significantly. The US takes a more strict view on the provision of NAS to audit clients in which there is a limit on the services an auditor can perform. In the US, the provision of NAS is no longer an issue or a foreseen problem. Professionals in the US mostly did not welcome the strict view taken on the provision of NAS. A minority did welcome the rules and regulations due to recent failures of companies and organisation. The potential problem is still in existence in Ireland and the UK.

5.4.1 Recommendation

From reviewing the literature and conducting primary research, the majority of professionals would not recommend the strict code on the provision of NAS as that of the US. Therefore, this approach is not recommended however, a review of the existing rules and regulations is recommended.

5.5 Conclusion Four

A further aim and objective was to investigate whether or not there is a need for change in the area of the provision of NAS. It was recognised regulators have been seeking change in this area for some time. The study attempted to investigate whether or not there is a problem with the provision of NAS.

It was certainly a key theme throughout the study that change is needed in regard to the proportionality or otherwise of NAS to total fees. If a firm of accountants/auditors create an imbalance in terms of consultancy fees to independent audit fees. The study also concludes that it can become more difficult to establish an impartial approach for a particular professional if they are engaged in two functions. It was concluded that consultancy firms employed to evaluate a firm or organisation find it difficult to be critical when in fact the same firm or organisation is for that part their paymaster.

5.5.1 Recommendation

The main changes needed are associated with the requirement to disclose openly and transparently the level of fee structures and the nature and extent of the work by all firms. There is also a need to include the voice of the clients in how work is governed by the standards committees for the accounting bodies. One approach which should be considered is to engage an independent review of work practices.

5.5 General Conclusions and recommendations

The overall aim and objective of the study was to make recommendations for the future. As highlighted in the aforementioned conclusions and recommendations there has been significant opinion expressed by professionals in regard to the provision of NAS, varying from a complete ban on NAS to a restriction in the provision of NAS.

It is clear from the majority of respondents that the governance afforded through a committee structure is to be welcomed. There is some protection for the individual that they are not exposed insofar as they would not be considered to have the autonomy to undertake an assignment with a potential conflict of interest for them either personally or professionally. Much of the discussion and opinion generally is related to governance,

openness and transparency. A clear need was identified that the individuals working within accountancy firms and the firm itself requires a level of protection professionally. There is also a need for cognescence to be given to the work of the ethical standards committees and the fact that they have already given serious consideration to the proportionality associated with the 15% limit on NAS.

It is evident that there is a level of divergence of opinion between professionals working in the accountancy/audit professions. However, given the size of this study it could be argued that the numbers of questionnaires and interviews are not sufficiently large to gain a full picture but rather it reflects some well informed opinion. It is therefore the final recommendation of this study that in the future further work is undertaken to explore in more detail the aims and objectives laid down.

5.6 Further Research

From conducting this study, it is recommended that further research be expanded to include research of Insurance Companies governing auditors' and accountants'. It is felt that such companies would accumulate important primary research to this area.

The sample size used in this research was small; the researcher feels that this should be expanded for further research.

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Appendices

Appendix I - Questionnaire



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Institiúid
Teicneolaíochta
Leitir Ceanáin

Letterkenny
Institute
of Technology

06th May 2010

To whom it may concern:

Re: Auditor Independence and the provision of Non-audit services to audit clients

I am a Masters student at Letterkenny Institute of Technology and I am writing to you in relation to my taught Masters Dissertation. I am conducting a survey of how auditors perceive the effect of the provision of NAS on auditor independence in Ireland. I hope this research will be of interest to you and to the wider academic and professional community.

Independence is defined, for the purposes of this study, as auditors being free from situations and relationships which would make it probable that a reasonable and informed third party would conclude that the auditor's objectivity either is impaired or could be impaired.

Non-audit services is defined, for the purpose of this study, as any engagement in which an audit firm provides professional services to an audit client other than pursuant to:

- (a) The audit of financial statements, and
- (b) Those other roles which legislation or regulation specify can be performed by the auditors of entity

I would be grateful if you would assist me in this study by completing the attached questionnaire. This should require no more than thirty minutes of your time. I can assure you that your responses will be treated in the strictest of confidence. The data will be summarized and only the summarized data, with no identifying features, will be reported in this thesis and any subsequent publication.

Your assistance in this matter is greatly appreciated.

Yours sincerely,

Avril Walls

M.A in Accounting Candidate

Auditor Independence and the provision of NAS Questionnaire

Question 1

Gender: Male _____ Female _____

Question 2

How many years of experience do you have in the following

(a) Accounting _____

(b) Auditing _____

Question 3

What percentage of your professional work involves:

(a) Accounting _____

(b) Auditing _____

(c) Taxation _____

(d) Consulting _____

Question 4

Do you think when auditors accept non-audit fees that it will likely compromise their independence?

(a) Yes ☐ (b) No ☐

If yes, please state your reasons why

Question 5

What percentage of non-audit fees to total audit fees from an audit client do you think would likely compromise the auditors' independence?

(a) 1-25%

(b) 26-50%

(c) 51-75%

(d) 76-100%

(e) NAS do not compromise independence

Question 6

In your opinion, do you think that NAS provided to audit clients increases the auditors' knowledge of a client and therefore allows the auditor to provide a better audit?

(a) Yes ☐ (b) No ☐

If your answer to the above is yes, please answer question 7. Otherwise, please continue to question 8.

Question 7

What added knowledge and/or advantages does the provision of NAS give to audit clients, in your opinion?

Question 8

Are you aware of any instances where the provision of NAS had potential to affect audit quality and therefore the NAS could not be completed?

(a) Yes ☐ (b) No ☐

Question 9

Do you think audit committees should approve all NAS to be provided by the auditor before the services are provided?

(a) Yes ☐ (b) No ☐

Question 10

Do you agree with the disclosure requirements of non-audit fees in the annual report?

(a) Yes ☐

(b) No ☐

Question 11

Should there be a complete ban on the provision of NAS to audit clients?

(a) Yes ☐

(b) No ☐

(c) Don't know ☐

Question 12

Do you think that there needs to be more rules and regulations in the area of NAS?

(a) Yes ☐

(b) No ☐

Question 13

Do you think that the provision of NAS to audit clients leads to an unfair competitive advantage for the Big 4 considering the small market in Ireland?

(a) Yes ☐

(b) No ☐

(c) Don't know ☐

Question 14

Are there any other comments you would like to contribute to this study? If so please use the space provided.

Appendix II - Interviews

Auditor Independence and the provision of NAS Interview Questions

Question 1

“When auditors accept non-audit fees, it has been said that this is likely to compromise their independence” Do you agree with this statement? And why?

(a) Yes ☐

(b) No ☐

Question 2

What percentage of non-audit fees to total audit fees from an audit client do you think would likely compromise an auditors' independence?

Question 3

In your opinion, do you think that NAS provided to audit clients increases the auditors' knowledge of a client and therefore allows the auditor to provide a better audit?

(a) Yes

☐

(b) No

☐

If your answer to the above is yes, please answer question 4. Otherwise, please continue to question 5.

Question 4

What added knowledge and/or advantages does the provision of NAS give to audit clients, in your opinion?

Question 5

In your opinion, is the independence of the auditor, whilst providing NAS, merely a perception issue?

If answer to above is yes, please answer question 6, otherwise continue to question 7

Question 6

Have you any other suggestions as to how this perception could be reduced or eliminated?

Question 7

Are you aware of any instances where the provision of NAS had potential to affect audit quality and therefore the audit could not be completed?

(a) Yes ☐

(b) No ☐

For example....

Question 8

Do you think audit committees should approve all NAS before the services are to be provided by the auditor? And do you think that they should play a more significant role in the conduct of the audit?

(a) Yes ☐

(b) No ☐

Question 9

Do you agree with the disclosure requirements of non-audit fees in the annual report?

Question 10

Do you think that there should be a more detailed note to the Financial Statements in regards to the type of NAS performed by the auditor?

Question 11

Do you think that there needs to be a change in the approach taken by the APB to the setting of standards relating to the provision of non-audit services by auditors to entities that they audit?

Question 12

Do you think that there needs to be more rules and regulations in the area of NAS, such as those introduced in the US?

(a) Yes ☐

(b) No ☐

Question 13

Should there be a complete ban on the provision of NAS to audit clients? Why?

(a) Yes ☐

(b) No ☐

(c) Don't know ☐

Question 14

Could it be a matter that stakeholders are simply not aware of regulations in relation to the provision of NAS?

Question 15

Do you think that the provision of NAS to audit clients leads to an unfair competitive advantage for the Big 4 considering the small market in Ireland?

(a) Yes ☐

(b) No ☐

Could this market be increased to the smaller or mid tier firms if NAS were banned from firms also conducting the audit?

Question 16

Are there any other comments you would like to contribute to this study? If so please use the space provided.

Appendix III – Interview Matrix

Question	Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4	Interviewee 5
Does NAS compromise independence	No	No	No	Yes	Yes
% of fees – compromise independence	<= 10%	<= 10%	<10%	0%	0%
Does NAS increase knowledge	No	Yes	No	No	No
What added knowledge	-	Information on managers and directors	-	-	-
Is this merely a perception issue	No		Yes	No	No
How to reduce perception issue	-		Safeguards, independent partner review, read annual report	-	-
Any problems with providing NAS	No	No		Yes	Yes
Seek audit committee approval	Yes	Yes	Yes	Yes	Yes
Disclosure requirements	Yes	Yes	Yes	Yes	Yes
More detail in	Yes	Yes	Yes	Yes	Yes

F.S					
Agree with setting of standards	No	No	No	Yes	Yes
More Rules and Regulation	-	-	No	Yes	Yes
A complete ban on NAS	No	No	No	Yes	Yes
Are stakeholders aware of rules and regulations	Vary	Possible issue	Yes	No	No
Big 4 – competitive advantage	No	No	No	Yes	Yes
Comments	Mergers	-	-	Separation	-

Appendix IV – Ethics Form

LYIT Application Form for Ethical Approval

NO EMPIRICAL RESEARCH SHOULD BE UNDERTAKEN PRIOR TO ETHICAL APPROVAL BEING GRANTED.

PLEASE NOTE - THAT COPIES OF PROPOSED QUESTIONNAIRES OR A LIST OF QUESTIONS THAT WILL BE INCLUDED IN ANY QUESTIONNAIRE SHOULD ACCOMPANY THIS APPLICATION FORM.

Project Title An investigation into auditor's independence and the provision of non audit services in Ireland

Date of Submission 26th July 2010

Name of all person(s) submitting research proposal
Avril Walls

Position **Student** ☒
Staff ☐
If student, **Undergraduate** ☐
Postgraduate ☒
Student No. L00046912
Programme M.A in Accounting
Name

Department/Centre Business department

Address for correspondence relating to this submission: Avril Walls, Ballinakillew, Laghey,
Co. Donegal

Name of Principal Researcher (if different from above e.g., Student's Supervisor)
As above

Position Held _____

Pre-existing approval and Multi-agency research

1. If your research has pre-existing ethics approval please attach the approval and submit directly to the School Ethics Research Committee.
2. If your research is to be carried out across two or more research centres and ethics approval has already been granted by another agency/institution then please attach the approval and submit to the School Ethics Research Committee.

In both instances there is no requirement to complete the remainder of the application form.

1. Describe the purposes of the research proposed.

To investigate the nature and extent of the provision of non audit services to clients and whether or not the provision of such services affect auditor's independence.

2. Please complete the research ethics checklist below:

	YES	NO
a) Does the research involve human or animal participants?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
b) Does the research involve data of a personal or confidential nature?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
c) Does the study involve participants who are particularly vulnerable or unable to give informed consent e.g. people under 18, people with learning disabilities, older people, your own students?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
d) Will the study require the co-operation of a gatekeeper for access to participants? (e.g. teacher, local council)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
e) Will it be necessary for participants to take part in the study without their knowledge and consent at the time? (e.g. covert observation of people in non-public places)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
f) Will the study involve discussion of sensitive topics (e.g. sexual activity, drug use)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
g) Are there issues of safety for the researchers or subjects, aside from those documented in Institute or Departmental Health and Safety procedures?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
h) Could the study induce psychological stress or anxiety or cause harm or negative consequences beyond the risks encountered in normal life?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
i) Will financial inducements (other than reasonable expenses and compensation for time) be offered to participants?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
j) Does the research involve a conflict of interests?	<input type="checkbox"/>	<input checked="" type="checkbox"/>

If you have answered 'no' to all of the questions above please submit to the School Ethics Research Committee. There is no requirement to complete the remainder of the form

If you have answered 'yes' to any of the questions above, please continue and complete the remainder of the application form.

3. Please give a summary of the design and methodology of the project. **Please note** that copies of proposed questionnaires or a list of questions that will be included in any questionnaire should accompany this application form (Compulsory not optional). Please also include in this section details of the proposed sample size, giving indications of the calculations used to determine the required sample size, including any assumptions you may have made. (If in doubt, please obtain statistical advice).

I propose to conduct research on the top 20 accounting firms in Ireland. I determined this amount so as it would be more general in Ireland. I also propose to conduct interviews with professionals in the accounting bodies and the Accounting and Auditing Boards, IAASA, to gain other perspectives

4. Describe the research procedures as they affect the research subject and any other parties involved.

n/a

5. What in your opinion are the ethical considerations involved in this proposal? (You may wish for example to comment on issues to do with consent, confidentiality, risk to subjects, etc.)

Ethical considerations is in relation to primary research carried out. I propose to conduct the questionnaires anonymously and therefore it will provide complete confidentiality.

6. Outline the reasons which lead you to be satisfied that the possible benefits to be gained from the project justify any risks or discomforts involved.

Within Ireland there is a great deal of concern placed on the provision of non audit services and the effects it may or may not have on auditor's independence. Therefore, there is huge benefits of this research to stakeholders and regulators as to whether or not auditor's are independent and if their going concern judgement is effected.

7. Who are the investigators (including assistants) who will conduct the research and what are their qualifications and experience?

I will conduct the research.

8. Are arrangements for the provision of clinical facilities to handle emergencies necessary? If so, briefly describe the arrangements made.

No.

9. In cases where subjects will be identified from information held by another party (for example, a doctor or hospital) describe the arrangements you intend to make to gain access to this information including, where appropriate, which Multi Centre Research Ethics Committee or Local Research Ethics Committee will be applied to.

N/A

10. Specify whether subjects will include students or others in a dependent relationship.
Subjects will include qualified accountants and professionals in the accountancy bodies and authorities.

11. Specify whether the research will include children or people with mental illness, disability or handicap. If so, please explain the necessity of involving these individuals as research subjects.
No, it will not involve any of the above

12. Will payment or any other incentive, such as a gift or free services, be made to any research subject? If so, please specify and state the level of payment to be made and/or the source of the funds/gift/free service to be used. Please explain the justification for offering payment or other incentive.

No. There will be no payment or any other incentives

13. Please give details of how consent is to be obtained. A copy of the proposed consent form, along with a separate information sheet, written in simple, non-technical language MUST ACCOMPANY THIS PROPOSAL FORM.

N/A

14. Comment on any cultural, social or gender-based characteristics of the subject which have affected the design of the project or which may affect its conduct.

N/A

15. Please state who will have access to the data and what measures which will be adopted to maintain the confidentiality of the research subject and to comply with data protection requirements e.g. will the data be anonymised?

I will be the only person with access to the data and the data will be anonymous.

16. Will the intended group of research subjects, to your knowledge, be involved in other research? If so, please justify.

No. this research is intended for my research only.

17. Date on which the project will begin and end

Began on September 2009 and will end in July 2010.

18. Please state location(s) where the project will be carried out.

Letterkenny Institute of Terchnology and at my home address above.

19. Please state briefly any precautions being taken to protect the health and safety of researchers and others associated with the project (as distinct from the research subjects) e.g. where blood samples are being taken

None.

20. Please specify how any data obtained during the course of the research will be stored and how long the data will be retained for.

The data will stored in my home, locked in a cabnet and will be retained until the end of my research which will be July 2010.

Name Avril Walls _____ Date _20/11/09_____
(Proposer of research)

Where the proposal is from a student, the Supervisor is asked to certify the accuracy of the above account.

Name _____ Date _____
(Supervisor of student)